Oklahoma Current Farm Economics

In This Issue:

The Agricultural Outlook

Tables of Prices and Price Indexes

Special Reports

Federal Income Tax and the Farmer

A Study of the Land Market in Beckham and Garfield Counties

December 1959

VOL. 32 NO. 4

Current Farm Economics

OKLAHOMA

Vol. 32 **December, 1959** **No. 4**

Prepared quarterly by the Department of Agricultural Economics and Extension Economists, Oklahoma State University
Mailed free upon request

L. A. PARCHER, Editor L. F. MILLER, Dept. Head

CONTENTS

Special Reports

The Agricultural Outlook ..... *Leo V. Blakley* 88

Federal Income Tax and the Farmer ..... *D. B. Jeffrey* 93

A Study of the Land Market in Beckham and Garfield Counties ..... *L. A. Parcher* 100

Oklahoma Agricultural Commodity Price Changes 106

Tables of Prices and Price Indexes 107

DIVISION OF AGRICULTURE

Oklahoma State University, Stillwater

Oklahoma Agricultural Experiment Station, Louis E. Hawkins, Director, Stillwater, Oklahoma.

Cooperative Extension Work in Agriculture and Home Economics. Oklahoma State University and United States Department of Agriculture, Cooperating. L. H. Brannon, Director, Oklahoma Agricultural Extension Service, Stillwater, Oklahoma. Distributed in furtherance of the Acts of Congress of May 8 and June 30, 1914.

THE AGRICULTURAL OUTLOOK

Leo V. Blakley

The General Situation

Business conditions were good in 1959. During the first half of the year most indicators of business activity moved up rapidly from the relatively low levels established in the 1957-58 recession. The rapid rise was curtailed by the steel strike at mid-year but increases have been maintained in most segments of our economy. Although steel production under the Taft-Hartley injunction was resumed, the lack of a settlement as this is written creates uncertainty about the level of business activity in 1960. Growth in income and production depends in large part on continued production of steel.

Investment in Plant and Equipment

One of the most favorable indicators for continued growth in the economy in 1960 is larger investments planned by businesses. In 1958 there was a sharp drop in business spending for new plant and equipment. Early in 1959 businesses had planned to increase this spending by about 4 percent. By September, the estimated increase had been revised up to 9 percent. Although the steel strike may have postponed some of these investments, new plant and equipment expenditures may total close to $33 billion in 1959.

According to the latest *McGraw-Hill* survey, total spending on new plant and equipment by non-farm businesses may be up as much as 10 percent in 1960 over that reported for 1959. Most major industry groups are expected to show gains. If these expenditures are made, then business investment will contribute to a significant increase in the general level of business activity in 1960.

Construction Activity

New construction activity was at the relatively high annual rate of $41 billion during the third quarter of 1959. Of this amount, approximately $23 billion was for residential non-farm construction. These expenditures would support about 1.3 million housing starts.

In 1960, residential construction may be down slightly. The shortage of loanable funds and the high interest rates may not support more

than about 1.2 million housing starts. Expenditures for other types of construction, however, are expected to increase over 1959. This increase should be enough to more than offset the expected decline in residential construction.

Business Inventories

The most volatile element in business spending is net inventory investment. Inventories were being reduced in the third quarter of 1958 at the annual rate of $3 billion. Early in 1959 this trend was reversed. During the second quarter of 1959 inventories were being increased at the annual rate of $10 billion—a difference of $13 billion in a period of a few months. A part of the increase in inventory investment was a direct result of anticipation of the steel strike. This is reflected in the fact that the greatest increase occurred in the durable goods industries.

The rate of inventory accumulation dropped after the steel strike. During the third quarter of 1959 inventory investment increased at the annual rate of $1 billion, and it is possible that inventories were actually reduced in the last quarter. Inventories relative to sales are low. This means that 1960 will be a year for increased inventory investment—particularly for steel and allied products in the early months.

Government Demand

Purchases of goods and services by the Federal Government in the third quarter of 1959 were at the annual rate of $54 billion—up $1 billion from a year earlier. In 1960 these purchases may be down slightly from the level in 1959. There is some reduction scheduled for military equipment, for shipment under the military assistance programs, and possibly for military construction and research. Partially offsetting the reductions for these items will be increased expenditures on atomic energy programs.

State and local government purchases in the third quarter of 1959 were about $45 billion—$4 billion over 1958. These expenditures are expected to increase further in 1960 and to more than offset any slight decrease in Federal Government expenditures.

Money and Credit

During the last half of 1958, the Federal Government was running a cash deficit of more than $12 billion. By early 1959 tax receipts

began to increase and the deficit was reduced to less than $1 billion. Although it is too early to know the budget requirements for the Federal Government in the coming calendar year, it is expected that a net surplus position will be reached by the end of the fiscal year, June 30, 1960. This change from a net deficit position to a net surplus position will suppress some of the inflationary pressure which was present in 1959.

The Federal Reserve re-discount rates at 3½ percent should also decrease some of the pressure for rising prices. However, this will be offset in part by a recent decision of the Federal Reserve Board to permit a portion of vault cash to be counted as a part of base for determining loanable funds by banks. A substantial increase in the quantity of money is possible under this decision.

Consumers have been willing to expand their consumption of products in relation to their income. At current rates, savings represent only about 6½ percent of income. This is down from the early post war period, but may be down only fractionally from average spending patterns if due consideration is given to the impact of the steel strike on particular classes of individuals.

Consumer Income and Expenditures

Consumer income after taxes during the third quarter of 1959 has been estimated at $335 billion. This is up about 5 percent from a year ago but was about the same as during the second quarter. Consumer income may have decreased slightly in the fourth quarter because of the decrease in income of the workers in the steel industry as well as lay-offs in closely allied industries.

Purchases of durable goods in the third quarter of 1959 were at the annual rate of about $44 billion. This was about the same as in the second quarter but was up 18 percent from the third quarter of 1958. Increased sales were largest in the automobile group. Close were increased purchases of furniture, appliances, and other household equipment.

Non-durable goods purchases reached an annual rate of 148 billion dollars in the third quarter. This was up slightly from the second quarter and was up from the same period of the year earlier. Increased sales were noted for all groups of goods.

In 1960 both consumer incomes and expenditures are expected to increase over the comparable 1959 levels. The apparent confidence of consumers has been the main bulwark supporting the growth in our economy during the 1950's.

The Agricultural Situation

Domestic Demand

The domestic demand for food has been strong during the past year. Industrial production has been increasing, employment has been high—at least prior to the steel strike, and incomes large. Moreover, consumers have been willing to spend their incomes for food.

These conditions are expected to continue in 1960. Increased private investment and public expenditures should bring increasing consumer incomes. Therefore, consumer expenditures on foods and fibers should increase unless the increase in agricultural production is substantial.

Export Demand

The most unusual feature of world transactions during the past year was the sharp decline in the trade surplus of the United States. United States exports totaled about 15.8 billion dollars. On the other hand, imports totaled about 15.1 billion dollars. This is almost a balance between exports and imports and represents a 7 year low in the net trade surplus.

Generally, demand conditions for agricultural commodities in the export market are at high levels even though net exports of agricultural commodities were down in 1959 from 1958. With lower export prices for most agricultural commodities, the volume of exports should be increased during the 1960 calendar year. Industrial countries importing our commodities are in strong financial condition and the availability of funds for special financing under programs such as the Mutual Security Act and Public Law 480 are large.

Export prospects for particular commodities are as follows:

cotton—larger foreign consumption, lower U. S. export prices and smaller foreign production;

rice—substantially larger exports with a payment in kind program;

feed grains—export prospects favorable with high foreign demand from expanding livestock industries and the fall drought in Europe;

fats and oils—another record year for soybeans and cottonseed oil, lard and tallow exports.

Agricultural Prices

Total farm output in 1959 is expected to reach a new high. Even with strong demand, these supplies were large enough to cause a decline of about 4 percent in agricultural prices. With higher prices paid by farmers, the parity ratio dropped below 80 for the first time since before World War II.

In 1960, further declines are expected in the index of prices received by farmers. Somewhat lower prices are expected for hogs, cattle, and some of the price supported crops including wheat.

Prices paid by farmers may increase further in 1960 because of higher prices of industrial products, interest rates, and taxes. Consequently, the parity ratio may drop further in 1960.

Farm Income. Net farm income this year (1959) is down almost as much as it was up last year. Moreover, a further decline is expected in 1960.

During the first three quarters of 1959 the seasonally adjusted annual rate of realized net farm income was 11.2 billion dollars—down 2 billion from last year. The decline was caused by higher production costs, lower soil bank payments, and lower prices of some commodities, particularly hogs and broilers. In view of the lower prices for hogs and beef cattle and the possibility that acreage restriction programs may cut production more in 1960 than in 1959, there is the distinct possibility that agricultural incomes will drop substantially in 1960.

Oklahoma's cash receipts from marketings were down in 1959 as compared with 1958. This decline stemmed from the decreased production of crops. There is little reason to believe that Oklahoma's gross cash receipts from farm marketings are likely to increase next year. In all probability, they will decline from 1959 levels. This would reflect the expected lower prices of beef cattle, hogs, and some crops.

FEDERAL INCOME TAX AND THE FARMER

D. B. Jeffrey

If you had a gross income of $600 or more during your tax year and you are a citizen or resident of the United States, you must file a federal income tax return even though no tax is due. This also applies to minor children. The one exception is if you are 65 years of age or over at the end of the tax year, you need not file unless your gross is $1,200 or more.

Even though you may not be required to file a return under the rules stated above, you may have to file a return and pay the self-employment tax. If you had net earnings of $400 or more from self-employment, you must file and pay social security tax.

If you earn at least two-thirds of your gross income from farming, your tax year starts January 1 and you have two choices of filing your income tax return. You may either:

(1) file your return and pay the tax on or before February 15, 1960; or

(2) file an estimate of your tax and pay this amount by January 15, 1960, then file your return and pay any balance due by April 15, 1960.

Forms

If you filed an income tax return last year, the necessary forms will be mailed to you. If for some reason you do not receive your form, you may obtain them from your local post office, county agent's office or from your nearest Internal Revenue Service office. It would be well to get two copies of each of the following forms that you need:

1040 This is your return.

1040F This is for farmers to list all farm income and deductions.

1040D This form is used to show gains and losses from sales of capital assets and certain property used in your farming business, such as dairy or breeding animals and farm machinery.

1040ES This form is used to declare an estimate of your tax.

1099 A separate copy is used for each individual that you paid $600 during the year.

1096 This is a summary sheet of form 1099.

rice—substantially larger exports with a payment in kind program;

feed grains—export prospects favorable with high foreign demand from expanding livestock industries and the fall drought in Europe;

fats and oils—another record year for soybeans and cottonseed oil, lard and tallow exports.

Agricultural Prices

Total farm output in 1959 is expected to reach a new high. Even with strong demand, these supplies were large enough to cause a decline of about 4 percent in agricultural prices. With higher prices paid by farmers, the parity ratio dropped below 80 for the first time since before World War II.

In 1960, further declines are expected in the index of prices received by farmers. Somewhat lower prices are expected for hogs, cattle, and some of the price supported crops including wheat.

Prices paid by farmers may increase further in 1960 because of higher prices of industrial products, interest rates, and taxes. Consequently, the parity ratio may drop further in 1960.

Farm Income. Net farm income this year (1959) is down almost as much as it was up last year. Moreover, a further decline is expected in 1960.

During the first three quarters of 1959 the seasonally adjusted annual rate of realized net farm income was 11.2 billion dollars—down 2 billion from last year. The decline was caused by higher production costs, lower soil bank payments, and lower prices of some commodities, particularly hogs and broilers. In view of the lower prices for hogs and beef cattle and the possibility that acreage restriction programs may cut production more in 1960 than in 1959, there is the distinct possibility that agricultural incomes will drop substantially in 1960.

Oklahoma's cash receipts from marketings were down in 1959 as compared with 1958. This decline stemmed from the decreased production of crops. There is little reason to believe that Oklahoma's gross cash receipts from farm marketings are likely to increase next year. In all probability, they will decline from 1959 levels. This would reflect the expected lower prices of beef cattle, hogs, and some crops.

FEDERAL INCOME TAX AND THE FARMER

D. B. Jeffrey

If you had a gross income of $600 or more during your tax year and you are a citizen or resident of the United States, you must file a federal income tax return even though no tax is due. This also applies to minor children. The one exception is if you are 65 years of age or over at the end of the tax year, you need not file unless your gross is $1,200 or more.

Even though you may not be required to file a return under the rules stated above, you may have to file a return and pay the self-employment tax. If you had net earnings of $400 or more from self-employment, you must file and pay social security tax.

If you earn at least two-thirds of your gross income from farming, your tax year starts January 1 and you have two choices of filing your income tax return. You may either:

(1) file your return and pay the tax on or before February 15, 1960; or

(2) file an estimate of your tax and pay this amount by January 15, 1960, then file your return and pay any balance due by April 15, 1960.

Forms

If you filed an income tax return last year, the necessary forms will be mailed to you. If for some reason you do not receive your form, you may obtain them from your local post office, county agent's office or from your nearest Internal Revenue Service office. It would be well to get two copies of each of the following forms that you need:

1040 This is your return.

1040F This is for farmers to list all farm income and deductions.

1040D This form is used to show gains and losses from sales of capital assets and certain property used in your farming business, such as dairy or breeding animals and farm machinery.

1040ES This form is used to declare an estimate of your tax.

1099 A separate copy is used for each individual that you paid $600 during the year.

1096 This is a summary sheet of form 1099.

1065 All partnerships are required to file this form. Each partner must include his distributive share of the partnership.

Tax Management

Wise tax management is a part of being a good farm manager, and can do much to reduce income taxes. A good tax manager "thinks taxes" all during the year. Little can be done to reduce taxes after the close of the year.

You need not be a tax expert to recognize the income tax aspects of a farm decision. However, to make wise business decisions from an income tax standpoint, the farmer must be informed and know the tax consequences of various business transactions. If you have a knowledge of farm business situations and the resulting decisions that have tax effects, it will help you to become a good tax manager.

The bulletin, "Farmer's Tax Guide," 1960 edition, Treasury Department publication No. 225, is available at your county agent's office. This bulletin discusses most of the major areas of tax planning that a farmer must face. There are some fifteen chapters written in layman language covering such things as depreciation and depletion; capital gains and losses; casualty losses and thefts; trades, condemnations and diseased livestock. A study of this bulletin could be profitable.

The timing of business transactions are important. *The less a farmer's net income fluctuates from year to year, the less income tax he will pay over a period of time.* A farmer wants to manage his business in such a way that the taxes paid over a period of years is no more than the legal minimum. The government expects to receive no more than the amount due. It is the responsibility of the individual to use all permissible means to reduce his taxes. One important means of reducing taxes is to spread the annual net income as evenly as possible over a period of years.

Depreciable Property

The purpose of the depreciation deduction is to recover investments in depreciable property over the period of its useful life. (Property with a useful life of more than one year is a capital expenditure.) A detailed analysis of the depreciation claimed must be submitted with your income tax return. This information is given on Schedule F or by attaching a separate schedule showing substantially the same information

called for in Schedule F. Your own records must be kept in enough detail to verify the correctness of your schedule.

Depreciation is allowed for property used in your business for the production of income. The property must have a limited and determinable life. Land is never depreciable because its useful life is indefinite. Neither is your house, its furnishings or your personal car used for pleasure only.

Useful Life. The first step in figuring depreciation is to determine the useful life, in your hands, of each item on your depreciation schedule. *There is no average useful life which is recognized as applicable to all farms.* You should determine the useful life of your property on the basis of your particular operating conditions and experience.

Basis for Depreciation. Usually, the cost of property is its basis. If you materially improve property, additional costs may be added to the basis. The depreciation deduction is never determined by reference to replacement cost.

Salvage Value. Salvage value is the amount estimated to be realizable on disposition of a depreciable item when permanently withdrawn from use in your farming business. *In no case may the total amount of depreciation deducted over the estimated useful life of the property be more than the adjusted basis less salvage where salvage is a factor.*

Reasonable Depreciation. The law requires that the allowance for depreciation be reasonable. Reasonableness of the depreciation allowance is dependent upon all the facts known at the end of the tax year for which it is figured. Any taxpayer, except a trust, may elect to deduct on a return an additional first-year depreciation allowance on new or used tangible personal property purchased after December 31, 1958, which has a useful life, in his hands, of six years or more when purchased. The additional allowance may be obtained only in the first tax year a depreciation deduction is allowable on such property. Additional allowance may not exceed $10,000 cost for a separate return or $20,000 for a joint return.

Methods of Figuring Depreciation. Any reasonable and consistent method of computing depreciation may be used. The three methods most generally used are:

(1) the straight line method;

(2) the declining balance method; and

(3) the sum of the year's digits method.

By selecting a particular method of figuring depreciation plus using the additional first-year depreciation, a farmer can level his income a great deal for any given year when new machinery or equipment is purchased. (It is assumed that farmers purchase most when they have a high income year.)

When an asset is acquired, you may compute depreciation on it under any method you choose. Once you have used a particular method for a particular asset, you ordinarily may not change your method of computing depreciation, unless you first get permission from the Internal Revenue Service to do so.

(*1*) *The Straight Line Method.* Under this method, the cost or other basis of the property less its estimated salvage value is deducted in equal annual amounts over its estimated useful life. The depreciation for each tax year is determined by dividing adjusted basis of the property at the beginning of the tax year, less salvage value, by the remaining useful life of the property at such time.

(*2*) *Declining Balance Method.* The declining balance method may be used to determine the depreciation allowance with respect to tangible property only. It may not be used with respect to intangibles. Under this method, the largest depreciation deduction is taken in the first year the property is in use, and a gradually smaller allowance in each of the following years.

Salvage value is not deducted from the basis of the property before figuring depreciation under this method, as an unrecovered cost remains at the end of the useful life of the property which may represent salvage. However, salvage value must be estimated at the time of acquisition, since depreciation allowances must stop when the unrecovered cost is reduced to salvage value.

There are limitations on the maximum rate that may be used to compute depreciation under the declining balance method.

Any rate which is not in excess of twice the straight-line rate may be used to compute depreciation under this method on any of the following property:

1. Property having a useful life of 3 years or more which you acquire new after December 31, 1953.

2. Property having a useful life of 3 years or more which is constructed, reconstructed, or erected by you after December 31, 1953.

(*3*) *Sum of the Year's-Digits Method.* The sum of the year's-digits method is also limited in use to certain property. To determine whether this method may be used to compute depreciation on any property, the same tests must be applied to the property that are applied to determine whether a declining balance rate of twice the straight-line rate may be used.

Under this method, you apply a different fraction each year to the basis of the property less its estimated salvage value. The denominator or bottom of the fraction is the total of the numbers representing the years of useful life of the property. For example, if the useful life is 5 years, the denominator is 15 (1+2+3+4+5=15). The numerator or top of the fraction is the number of years of life remaining at the beginning of the year for which the computation is made. For the first year of a five-year life, the numerator would be 5, the second year 4, etc. Thus, for property with a useful life of 5 years, the fraction to be applied to the cost minus salvage to figure depreciation for the first year is 5/15. The fraction for the second year is 4/15, etc.

Depreciation Methods Compared. The following comparison is based on a new tractor purchased January 2, 1959, costing $2,100, and with a useful life of 10 years.

Year	Annual Depreciation		
	Straight Line 10%	20% Declining Balance	Sum of The Years Digits
Additional First-Year Depreciation	$420	$420	$420.00
Plus Regular First-Year Depreciation	158	336	287.27
1	578	756	707.27
2	158	269	258.54
3	158	215	229.82
4	158	172	201.10
5	158	138	172.36
6	158	110	143.63
7	158	88	114.90
8	158	70	86.18
9	158	56	57.45
10	158	25	28.72
Total	$2,000	$1,999	$1,999.87
Salvage Value	$100	$101	$100.00

Planning Farm Depreciation & Expenses

The use of the additional first-year depreciation and a straight line annual depreciation is used by most farmers because it helps to keep expenses constant. The farmer who knows that he is going to have less net income in four or five years would want to use one of the accelerated methods. An example of this would be a sixty-year old farmer who knew he was going to slow down at age sixty-five.

Some expenditures which are not necessarily made every year are nevertheless deductible in the year in which they occur. Such expenditures include: repainting buildings, repairing fences, minor repair on buildings, many small shop tools, increased improvements of pastures. Farmers can manage to make many expenditures of this type in years of high gross income to reduce their taxable income. If a farmer suffered a "net operating loss" for the calendar year 1959, it may be carried back to 1956 to offset income for that year. Any excess that remains may be used as an offset until absorbed against your 1957 and 1958 income. If any excess still remains, it may be carried over until absorbed as a deduction from your income for the years 1960 to 1964.

Tax Management of Sales or Trades

Where new machinery or equipment is acquired, it is well to consider whether it is better to buy the new item outright and sell an old item or trade the old one on the new one. If the book value is lower than the trade-in value, there is an advantage in selling the old item and buying a new one.

In selling a farm, the tax liability on gain can be spread over a period of years and in many cases can be reduced by use of the "installment sales" method. To qualify for such sale, the payments received in the year of sale must not exceed 30 percent of the selling price.

In all cases where the farmer's personal dwelling is part of the farm which is sold, any gain realized on the dwelling is not recognized for tax purposes if all of the proceeds from the dwelling are reinvested in a new dwelling, purchased and occupied by the farmer within one year prior to or after the date of sale of his original dwelling.

Tax Planning in Buying a Farm

Tax planning should begin at the time a farm is purchased. At the time of purchase, the buyer should allocate the total cost of the

farm to: growing crops (if any), depreciable improvements, dwellings and land. From a tax management viewpoint, the amounts allocated to the different items are handled differently. For instance:

The cost of growing crops is a current year farm expense.
The cost of improvements will be recovered through depreciation.
The dwelling may be depreciated if it is rented out.
The cost allocated to land will not be recovered until the farm is sold.

Records

All taxpayers, including farmers, are required to keep records which will enable them to accurately prepare an income tax return, and which will permit Internal Revenue Service to determine whether the law has been applied correctly.

Good records can mean dollars to you in the way of: (1) income tax savings; (2) management of your farm business; and (3) social security benefits.

The Internal Revenue Service does not prescribe any particular kind of record books. A record book that will accurately and clearly reflect income, deductions, capital gain items, and social security income that is taxable may be purchased at your local county agent's office. Only by keeping good records can you be sure that you will pay the correct tax required by law, and no more.

Tax management has some limitations. Wise farm management decisions should usually take precedence over tax management. Successful tax management is based largely upon complete records kept regularly and carefully throughout the years. It is always advisable to have net taxable income as large as the amount allowed for personal deductions and exemptions.

A STUDY OF THE LAND MARKET IN BECKHAM AND GARFIELD COUNTIES[1]

L. A. Parcher

Why do people buy land? What factors do they consider in determining how much they will pay? Who is buying and who is selling? These and other questions were the subject of a research project carried out jointly by the Oklahoma Agricultural Experiment Station and the Farm Economics Research Division of the United States Department of Agriculture.

The project confined the study to the bona fide land sales made in two Oklahoma counties, Beckham and Garfield, during 1956. In Beckham county 75 separate tracts were sold totaling 11,144 acres. In Garfield 50 tracts containing a total of 7,643 acres were sold. There is no assumption that the data are applicable to Oklahoma as a whole, nor for any long period of time, but they are believed to be representative of sales in the north central wheat area and those in the southwest cotton and wheat area of Oklahoma.

The north central area is noted for its relative agricultural stability, whereas the southwest area not only was in the process of shifting from cotton to small grains, but had been subjected to a severe drouth during 1956. Thus, we find not only a different type of farming, but a difference in stability, soils, and, for the year studied, moisture.

Land Income

Expected future income from land is considered as one of the important reasons why people buy land. Personal interviews with buyers indicated that a large majority attempted to make some estimate of expected income from the land in arriving at a price. This raised the question of why land prices continued to advance in spite of a steadily declining index of parity, which is one measure of net returns. Were buyers over-estimating net income, were they willing to accept a low rate of returns on their purchase, or was it the very fact of declining net returns which caused buyers to act as they did?

---

[1]Based on a master's thesis at Oklahoma State University, *An Analysis of the Farm Real Estate Market in Beckham and Garfield Counties, Oklahoma, 1956*, by Billy Howard Stewart.

Buyers may be over-estimating net returns, and they may be willing to accept a lower rate of return than alternatives open to them would allow. However, their actions in paying prices for land higher than might at first appear justified, may actually have been economically sound.

Increased Efficiency

A farmer who cannot use his present machinery or cannot take advantage of improved machines so as to operate efficiently on his present unit may wisely decide to acquire more acres. Mr. E. F. Crouse, rural appraiser and President of the Farm Business Council, Inc., points out[2] that when a farmer must choose between buying more land or else giving up the advantages of improved machines, he is inclined to buy more land particularly if at the same time he can add allotment acres of a restricted crop. Mr. Crouse goes on to quote Professor C. L. Stewart of the University of Illinois, who explains how greater efficiency in the use of machines can be capitalized into land values.

Professor Stewart reports that if all cost reductions resulting from the addition of 80 acres to a 180 acre farm in northern Illinois were credited to the added 80 acres, it would amount to about $18.00 per acre per year. Studies[3] in Oklahoma indicate a similar relationship. By adding a quarter section of land to a half section already owned and thus acquiring one-half more cropland,[4] it appears that an annual per acre saving in cost by something over $2.00 can be achieved (Table I). It is assumed that per acre variable costs would remain constant at $6.60

Table I.—Cost of Producing Wheat*

Item of Cost	204 Acres		306 Acres	
	Total	Per Acre	Total	Per Acre
Variable Costs	$1345	$ 6.60	$2020	$ 6.60
Fixed Costs	1775	8.70	1955	6.39
Total Costs	3125	15.30	3970	12.99

*Based upon Tucker, Myles, and Back op. cit. Totals rounded to nearest $5.00.

[2]"Should I Buy Land?", E. F. Crouse, *The Farm Quarterly*, Winter, 1959.

[3]*Optimum Wheat-Beef Farming Systems in North Central Oklahoma*, James S. Plaxico and Daniel Capstick, Okla. Agri. Expt. Sta. Bul. No. B-532, August, 1959 and *Cost of Producing Wheat in Garfield County, Oklahoma, 1910-1956*, E. A. Tucker, George A. Myles, and W. B. Back, Processed Series P-303, September, 1958.

[4]This assumes that 102 acres of wheat will be grown on each quarter section of land, that is, to his original 204 acres of wheat land the farmer adds 102 acres making a total of 306 acres.

per acre, and that no additional machinery would be required. Thus, total fixed costs would increase by no more than 10 percent as a result of the added acreage.

The average per acre total cost for 204 acres is $15.30. The average per acre total cost for 306 acres is $12.99; a savings of $2.31 per acre. This savings, if capitalized into value at 5 percent, increases the value of all the cropland by $46.20 per acre. If all this increase in value is credited to the added cropland which allowed the increase, it amounts to a little more than $138.60 per acre. This amount is in addition to the basic income value of the land, and apparently the wheat farmer who is adding to an undersized unit is in a position to outbid competitors who are already close to their optimum size or who expect to farm only a quarter section.

This may partially explain why land prices in the two counties studied were substantially higher if the acquired land had a large allotment as compared to land with a small allotment (Table II).

Table II.—Character of Allotment, Number of Tracts, Average Assessed Value in Acre and Average Selling Price of 98 Land Sales in Garfield and Beckham Counties, Oklahoma, 1956

Character of Allotment	Number of Tracts	Assessed Value Per Acre	Average Sales Value Per Acre
Large Allotment*	44	$23.90	$155.70
Small Allotment	54	14.60	84.80
Total	98	18.78	116.63

*Includes sales with 40 percent or more of total tract in wheat allotment in Garfield County and 25 percent or more of total tract in cotton allotment in Beckham County.

It is true, of course, that part of the difference in price paid may, as suggested by Miller,[5] be due to difference in quality as indicated by assessed valuations. However, there is a great deal of evidence to support an hypothesis that farmers are, when necessary, willing to pay high prices for additional land because it is to their advantage to do so.

Stewart's study[6] shows a large majority of the land buyers in Garfield and Beckham counties were active farmers buying to increase the size of their units. He also shows a correlation between price paid and proximity to present tract.

[5] "Are Your Taxes Right?", L. F. Miller, *The Farmer Stockman*, July, 1958.
[6] Billy Howard Stewart, op. cit.

A similar study[7] further supports the hypothesis suggested above. Steichen's study shows that practically all offers to buy came from farmers adding to their present holdings, and that there was a distinct correlation between bid prices, the percentage of cropland, and the proximity of the tract offered to their present land. Historical yields of wheat on the added tract apparently were not considered as important by bidders as was the capability of the added land to respond to improved technology.

Mineral Rights

The proportion of the mineral rights transferred with the land also is usually a factor considered in land sales, and buyers in the two counties reported that the proportion of the mineral rights they received influenced the price. How much the price was affected is difficult to determine, for previous studies have shown that there is less separation of mineral rights on good quality land than on poorer qualities.[8] It may be, therefore, that lower quality contributed to a proportion of the difference in price paid for land with all minerals as compared to land with fractional shares (Table III).

Table III.—Average Size, Price and Acres Sold by Percentage of Mineral Rights Conveyed, Beckham and Garfield Counties, Oklahoma, 1956

Percent of Mineral Righ s Conveyed	Number of Tracts	Average Acres Per Tract	Percent of Total Acres	Average Price Per Acre
				Dollars
		Beckham County		
100	7	100	6	71
50-99	25	164	37	71
25-49	11	122	12	72
Less than 25	32	156	45	43
Total	75	149	100	59
		Garfield County		
100	23	150	45	200
50-99	25	160	52	139
25-49	2	120	3	87
Less than 25	0	0	0	0
Total	50	154	100	165

Price Negotiation

The valuation or bargaining procedure between buyers and sellers in Beckham and Garfield counties followed no particular pattern. Most

[7] *An Analysis of Indian Land Sales in Miller Township, Kay County, Oklahoma, 1956-58,* Joseph Cleo Steichen, unpublished report.

[8] *Some Factors Influencing Mineral Rights Separation in Land Sales,* L. A. Parcher, Okla. Agri. Expt. Sta. Bul. No. B-431, July, 1954.

buyers arrived at the price paid by inspecting the property and making an estimate of its worth. Few were actively looking for land to buy, but bought when the opportunity to buy a particular tract presented itself. There was little haggling over price; 70 percent of the buyers simply paid the seller's asking price. In other cases where the seller had not set a price, he accepted the first offer of the buyer. The proportion of mineral rights reserved by the seller and the value of standing crops apparently were sources of contention more often than any other factor, including the price to be paid.

In fewer than 10 percent of the transactions in the two study counties was there more than one bidder. Buyers reported, however, that while active competition was absent, they felt that there was a type of inactive competition due to the relative scarcity of land.

Sellers reported that they set their price by comparison with other similar properties which had sold or by considering how much they had paid for the property originally. It was an exception when a seller listed his property with a real estate agent. Therefore, in most instances the fact that a tract was for sale was known to but few people.

Reasons for Selling

Active or retired farmers were the principal sellers of land. Forty-six percent of all sellers lived on the farm they sold and gave as reasons for selling such things as "financial pressure", "chance to sell" (apparently at an advantage, "took job in town," and "poor health." In many instances it appeared that sellers were reaching an age where they wished to retire or contract operations. This was particularly true in Garfield County, where 57 percent of the sellers were over 55 years old. In Beckham County, where only 30 percent of the sellers were over 55 years old, it appeared that many of the younger farmers were leaving the farm for town employment or because of increased school or social activities of their families. It is to be remembered that 1956 was a bad crop year in Beckham County, and some of the younger operators may have become discouraged and decided to quit farming.

Summary

It appears that on the basis of this study the land market is unlike markets for many other goods. First, there seems to be no multiplicity of sellers nor a supply schedule, and secondly, while there are reasons for believing that more than one farmer would be interested in adding

land to his present holdings, the demand side of the market in the two study counties appears to be one consisting of a single buyer. That is, there is a sudden availability of a tract of land, and a spur of the moment decision by someone to buy the tract even though he had not heretofore contemplated such a purchase. There is no active competition between sellers to try to induce buyers to take their product, nor does there seem to be any active competition between buyers. But, as many of the buyers pointed out, there is a scarcity of land, and there is no reason to believe that someone else could not have used the additional land as advantageously as the one who purchased it.

OKLAHOMA AGRICULTURAL COMMODITY PRICE CHANGES

Prices received by Oklahoma farmers declined during the fall months of 1959. On November 15, the index of prices received was 256 percent of the 1910-14 average. This was down about 4 percent from August and was 7 percent lower than in November, 1958.

The parity index, at 297 percent of the 1910-14 average remained steady during the fall months. With this index steady and the index of prices received by farmers lower, the index of purchasing power of Oklahoma farm commodities declined to 86. This was 4 points lower than in August and 8 points lower than in November, 1958. However, it was 9 points higher than the similar ratio for the United States.

Crop prices held relatively stable from August through November. Higher prices of grains harvested during the spring and summer months were offset by lower prices of cotton, corn, and grain sorghums. Higher hay prices also helped to stabilize the index of crop prices.

Livestock and livestock product prices continued the decline which started in May. On November 15, the decline from May averaged about 11 percent. The decline occurred primarily from lower prices of meat animals (down 19 percent) since both the dairy products and poultry and poultry products groups registered increases over the spring and summer months.

The product-feed price ratios listed in Table 4 were favorable in November, compared with the summer months. However, most ratios were below the levels of a year earlier. The hog-corn price ratio registered the largest drop. Sharply lower hog prices more than offset the lower corn prices to result in a below average hog-corn price ratio of 11.6.

Prices received by Oklahoma farmers may hold relatively steady during the next three months. Seasonal increases are expected for most of the grain, hay, dairy products, and poultry products. Cotton and meat animal prices usually exhibit seasonal increases after January but larger marketings could nullify any expected rise for meat animals.

Table 1.—Monthly and Season Average[1] Prices Received by Farmers for Oklahoma Farm Products.

(Dollars)

	Wheat	Corn	Oats	Barley	Rye	Grain Sorghum	All hay	Alfalfa hay	Wild hay	Cotton-lint	Cotton-seed	Soy-beans	Pea-nuts
1957	1.93	1.24	.65	.80	.97	1.64*	19.30	23.62*	16.22*	.227	49.70	2.01	.102
1958**	1.75	1.15	.56	.77	.89	1.70	15.00	18.69	12.97	.310	41.40	1.80	.105
1958 Nov.	1.81	1.06	.61	.85	.96	1.62	15.20	18.40	12.80	.305	42.00	1.78	.103
Dec.	1.78	1.11	.62	.86	.97	1.68	16.80	19.90	14.10	.268	42.00	1.88	.105
1959 Jan.	1.80	1.12	.64	.89	.98	1.72	17.10	20.40	14.00	.252	41.00	1.95	.103
Feb.	1.84	1.12	.64	.89	.98	1.78	16.40	19.60	13.30	.264	42.00	1.95	.105
Mar.	1.84	1.13	.63	.88	.97	1.80	16.30	19.80	12.80	.256	42.00	1.95	.105
Apr.	1.87	1.16	.65	.88	.95	1.86	16.80	20.40	13.20	.296	-- --	2.00	.102
May	1.82	1.18	.64	.83	.90	1.90	16.40	20.20	12.70	.270	-- --	2.00	---
June	1.69	1.20	.55	.69	.88	1.92	15.60	19.00	12.30	.270	-- --	1.95	---
July	1.71	1.20	.60	.74	.89	1.89	15.70	19.50	12.00	.290	-- --	1.90	---
Aug.	1.73	1.20	.64	.77	.87	1.69	15.60	19.60	11.50	.300	41.00	1.89	---
Sept.	1.77	1.05	.64	.78	.95	1.46	16.70	21.10	12.50	.310	38.00	1.77	.100
Oct.	1.81	1.05	.67	.79	.98	1.48	16.90	21.30	12.80	.300	37.00	1.78	.095
Nov.	1.83	1.05	.68	.81	.95	1.50	18.20	22.50	14.00	.280	38.00	1.84	.095

	Cattle	Calves	Sheep	Lambs	Hogs	Wholesale milk	Butter-fat	All chickens	Commercial broilers	Eggs	Turkeys	Wool	Alfalfa seed	Sweet Potatoes
1957	15.90	17.90	6.60	19.60*	17.90	4.59*	.53	.163	.183	.273	.221	.45	21.20*	2.85
1958**	21.50	25.50	7.80	21.00	19.60	4.65	.52	.166	.179	.328	.222	.28	19.00	2.42
1958 Nov.	21.80*	26.80*	7.40	20.00	18.30*	4.80*	.53*	.146	.155*	.357	.220	.29	19.40	2.35
Dec.	22.70	27.50	7.20*	18.60*	17.80	4.90*	.53*	.139	.150*	.373	.230	.29*	19.00	2.45
1959 Jan.	22.70	27.50	7.10	17.40	16.60	4.80*	.51	.154	.165	.363	.230	.28	20.00	2.55
Feb.	23.10	28.50	7.20	17.40	15.80	4.70	.52	.141	.160	.320	.22	.28	20.00	2.55
Mar.	23.20	28.30	7.50	18.30	15.30	4.65	.52	.133	.160	.288	.22	.27	19.50	2.55
Apr.	24.00	29.30	7.50	19.60	15.60	4.35	.52	.133	.150	.227	.22	.30	20.00	---
May	24.10	29.30	7.20	22.00	15.30	4.10	.52	.136	.150	.205	.21	.33	19.50	---
June	23.80	29.30	7.00	21.40	15.30	4.15	.52	.130	.145	.205	.20	.36	-- --	---
July	23.10	29.50	7.50	20.50	14.00	4.30	.52	.141	.155	.241	.21	.37	-- --	---
Aug.	22.60	28.00	6.50	19.20	13.70	4.35*	.53	.136	.150	.253	.21	.37	19.70	2.60
Sept.	21.90	27.00	6.50	18.40	13.20	4.45	.53	.135	.145	.279	.21	.35	20.00	2.50
Oct.	20.10	25.00	7.00	16.80	12.00	4.75	.53	.124	.135	.297	.21	.34	19.70	2.20
Nov.	19.40	24.50	6.80	16.80	12.20	4.85**	.54	.121	.140	.314	.24	.34	19.50	2.30

SOURCE: *Prices Received by Farmers*, Agricultural Marketing Service, U.S.D.A., Oklahoma City, Oklahoma, Monthly Releases or *Agricultural Prices*, A.M.S., U.S.D.A., Washington, D. C.

[1] Annual prices for crops are season average prices for the crop year weighted by marketings. Annual prices for livestock and products are season average prices for the calendar year weighted by marketings.

* Revised ** Preliminary *** 9 months average

Table 2.—Index Numbers of Prices Received by Farmers for Oklahoma Farm Products.[1]

(Percent of 1910-14 Average)

		Wheat	Corn	Oats	Barley	Rye	Grain sorghums	All Hay	Cotton-lint	Cotton-seed	Sweet Potatoes
1957		227	205	166	150	123	155	261	244	286	235***
1958		215	180	135	128	109	143	183	228*	251	229
1958	Nov.	210	163	136	142	112	135	172	269	215	191
	Dec.	206	171	139	144	113	140	190	237	215	199
1959	Jan.	209	172	143	149	114	143	194	223	210	207
	Feb.	213	172	143	149	114	148	186	233*	215	207
	Mar.	213	174	141	147	113	150	185	226	215	215
	Apr.	217	166	145	147	110	155	190	261	215	215
	May	211	182	143	139	105	158	186	239	215	---
	June	196	185	123	115	102	160	177	239	215	---
	July	198	185	134	124	103	157	178	256	215	---
	Aug.	201	185	143	129	101	140	177	265	210	211
	Sept.	205	162	143	130	110	121	189	274	194	203
	Oct.	210	162	150	132	114	123	206	265	189	179
	Nov.	212	162	152	135	110	125	206	247	194	187

		Cattle	Calves	Sheep	Lambs	Hogs	Wholesale milk	Butterfat	All chickens	Eggs	Wool
1957		328	297	147*	336	256	239*	225*	173	171	261
1958		445*	423	169*	358	281*	242*	223*	176*	185	182
1958	Nov.	451	449*	160	344*	260*	249*	226*	155	201	169
	Dec.	470	461	156	320*	253	254*	226*	148*	210	169*
1959	Jan.	470	461	154	299	236	249*	218	164	204	163
	Feb.	478	477	156	299	224	244	222	150	180	163
	Mar.	480	474	162	315	217	241	222	151	162	157
	Apr.	497	491	162	337	222	226	222	142	128	175
	May	499	491	156	379	217	213*	222	145	115	192
	June	493	491	152	368	217	215	222	138	115	210
	July	478	494	162	353	199	223	222	150	135	215
	Aug.	468	469	141	330	195	226*	226	145	144	215
	Sept.	453	452	141	317	188	231	226	144	157	204
	Oct.	416	419	152	289	170	247	226	132	167	198
	Nov.	402	410	147	289	173	252	231	129	176	198

SOURCE: Annual data are averages of months for calendar years and are compiled by Dept. of Ag. Econ., Oklahoma State University, from data supplied by Agricultural Marketing Service, U.S.D.A., Oklahoma City, Oklahoma, and Washington, D. C. For previous years, see Oklahoma Agri. Exp. Sta. Publication P-297, Prices Received by Oklahoma Farmers, 1910-1957.

[1] For the index of purchasing power of a unit of an individual commodity in terms of commodities used in farm production and family living, interest, taxes and wage rates, divide the index of price received by Oklahoma farmers (in this table) by the index prices paid by United States farmers in Table 4 for the same month and multiply by 100.

* Revised ** Data not available *** 9 months average

Table 3.—Price Indexes of Groups of Oklahoma Farm Products.
(Percent of 1910-14 Average)

		All farm products	All crops	Feed grains	Feed grains and hay	Cotton and cottonseed	Oil bearing crops	All livestock & L.S. Prod.	Meat animals	Dairy products	Poultry and poultry prod.
1957		251	237	182	215	247	306	267*	305	255*	175
1958		271*	220*	159	172	230*	283	327*	401*	256*	187*
1958	Nov.	275*	224	150	163	262	269	331*	405*	260*	194
	Dec.	275*	216	156	172	233	273	340*	417*	264*	199*
1959	Jan.	273	215	159	176	220	267	336*	413	259*	199
	Feb.	275	220	160	174	230	273	335	418	257	177
	Mar.	273	219	161	174	224	273	332	418	255	164
	Apr.	278	228	166	179	255	268	333	432	246	136
	May	273	220	167	179	235	268	330	432	239	126
	June	266	209	164	174	235	267	328	428	239	125
	July	267	215	166	175	250	267	324	416	242	143
	Aug.	266	218	162	172	258	265	319*	405	246*	148
	Sept.	266	221	146	166	264	256	314	392	249	158
	Oct.	258	222	148	168	256	245	298	359	260	163
	Nov.	256	220	149	174	240	247	295	350	264	171

Purchasing Power Indexes of Groups of Oklahoma Farm Products[1]
(Percent of 1910-14 Average)

		All farm products	All crops	Food grains	Feed grains	Feed grains and hay	Cotton and cottonseed	Oil bearing crops	All livestock & L.S. prod.	Meat animals	Dairy products	Pltry. and pltry. prod.
1957		88	83	79	64*	75*	86	107*	93	106	89*	61*
1958		92	75	73	54	59	78*	96	111	137	87*	64*
1958	Nov.	94*	76	71	51	55	89	91	113*	138*	88*	66
	Dec.	93	73	70	53	58	79	93	115*	141	89*	67*
1959	Jan.	92	72	70	53	59	74	90	113*	139	87*	67
	Feb.	93	74	72	54	59	77	92	113	141	87	60
	Mar.	92	73	71	54	58	75	92	111	140	86	55
	Apr.	93	76	73	56	60	85	90	111	144	82	45
	May	91	74	71	56	60	79	90	110	144	79*	42
	June	89	70	66	55	58	79	90	110	144	80	42
	July	90	72	66	56	59	84	90	109	140	81	48
	Aug.	90	73	67	55	58	87	89	107	136	83*	50
	Sept.	90	74	69	49	56	89	86	106	132	84	53
	Oct.	87	75	71	50	57	86	83	101	121	88	55
	Nov.	86	74	71	50	59	81	83	99	118	89	58

SOURCE: Compiled by Dept. of Ag. Econ., Oklahoma State University, from data supplied by Agricultural Marketing Service, U.S.D.A., Oklahoma City, Oklahoma, and Washington, D. C. For previous years, see Oklahoma Agri. Exp. Sta. Publication P-297, Prices Received by Oklahoma Farmers, 1910-1957.

[1] The ratio of prices received by farmers to prices paid by farmers for commodities used in farm living and production, interest, taxes and wage rates. For individual commodities, see footnote 1 of Table 2.

* Revised

Table 4.—Index Numbers in the United States, Index of Demand Deposits in Oklahoma, and Oklahoma Price Ratios.

		United States index numbers of:					Oklahoma price ratios[4]			
		Prices received by farmers (1910-14=100)	Prices paid by farmers (1910-14=100)	Wholesale prices (1910-14=100)	Industrial manufacturing payrolls[1] (1947-49=100)	Index of demand deposits in Oklahoma[2 3] (1923-25=100)	Hog corn	Egg feed	Turkey feed	Milk feed
1954		246	277	247	137.7	289.3	15.15	8.6	7.4	1.479
1955		232	276	248	152.8*	291.3	11.43	9.5	7.4	1.622*
1956		230	278	256	161.3	297.4	10.35	9.7	7.2	1.695*
1957		235	286	264	162.7	290.9	13.55	9.2	6.8	1.757*
1958		250	293	268	148.8	313.0	16.87	10.2	6.9	1.968*
1958	Nov.	247	294	267	158.4*	336.0	16.98	11.4	7.0	2.078*
	Dec.	244	295	267	160.4*	339.2	16.04	11.6	7.1	1.979
1959	Jan.	244	298	270	158.2	341.6	14.82	11.1	7.1	1.879
	Feb.	243	297	267	160.4	335.7	14.11	9.8	6.7	1.854
	Mar.	244	298	267	165.1	330.0	13.54	8.9	6.8	1.856
	Apr.	244	299	270	167.0*	339.2	13.45	6.9	6.6	1.696
	May	245	299	270	169.6	329.7	12.97	6.2	6.4	1.619*
	June	242	298	267	174.4*	332.9	12.75	6.4	6.3	1.748
	July	240	298	267	170.2	341.5	11.67	7.6	6.6	1.810
	Aug.	239	297	267	164.9	332.8	11.42	8.1	6.6	1.828
	Sept.	239	297	270	169.2	331.8	12.57	9.1	6.8	1.929
	Oct.	235	296	267	165.8	330.7	11.43	9.6	6.8	2.017
	Nov.	230	297	267	----	----	11.62	10.1	7.7	2.012

SOURCE: Indexes of U. S. prices received and prices paid by farmers and indexes of U. S. wholesale prices, from *Agricultural Prices*, A.M.S., U.S.D.A., Washington, D. C. Indexes of demand deposits in Oklahoma, calculated by Dept. Agri. Econ., Okla. Agri. Exp. Sta. from data furnished by Federal Reserve Board, Washington, D. C. Indexes of industrial manufacturing payrolls, from U. S. Department of Labor, Bureau of Labor Statistics, Washington, D. C.

[1] Unadjusted for seasonal variation.

[2] Demand deposits of Oklahoma member banks of the Federal Reserve System located in places under 15,000 population.

[3] Index numbers based on net demand deposits prior to 1936 and upon gross demand deposits since that date. For a discussion of this index see CURRENT FARM ECONOMICS, Oklahoma Agricultural Experiment Station Series 49, Vol. 13, Nos. 1 and 2. Feb.-Apr., 1940. p. 41.

[4] The number of bushels of corn or pounds of feed which one unit of the commodity (100 pounds of hogs, one dozen eggs, one pound of turkeys or milk) will purchase. Prices used are the official A.M.S. estimates of prices received by Oklahoma farmers except for commercial feeds or ingredients which are official A.M.S. estimates of prices paid by Oklahoma farmers. These ratios are computed on the basis of fixed rations and are not directly comparable with ratios computed from other rations. The composition of each ration used is available upon request.

* Revised.

12-59—3½M